Vhembe District Municipality
Annual financial statements
for the year ended 30 June 2020

General Information

Legal form of entity	District Municipality Category C
Nature of business and principal activities	Providing municipal services to communities in a sustainable manner, to promote social and economic development, and to promote a safe and healthy environment.
Grading of the municipality	Four (4)
Municipal Council	
Executive Mayor	Councillor DA Nenguda
Speaker	Councillor TF Nkondo
Chief Whip	Councillor RS Ndou
Members of the Mayoral Committee	Councillor TS Mbedzi
	Councillor NC Radamba
	Councillor PJ Chavani
	Councillor MR Magada
	Councillor NR Mathukha
Other Councillors	Councillor TS Magada
	Councillor TR Maingo
	Councillor MJ Mariba
	Councillor O Netshisaulu
	Councillor E Madzunya
	Councillor LR Rambuwani
	Councillor MP Mathoma
	Councillor TN Maboya
	Councillor P Mashau
	Councillor SE Makhomisane
	Councillor AJ Masithi
	Councillor DE Tshishonge
	Councillor R Raliphada
	Councillor TS Pandelane
	Councillor PE Mawela
	Councillor NE Ngobeni
	Councillor FN Madzhiga
	Councillor LR Maluleke
	Councillor SC Kwinda
	Councillor MJ Mpashe
	Councillor MS Tshilambyana
	Councillor TC Mamafha
	Councillor MS Matamela
	Councillor MM Mulaudzi
	Councillor MS Machete
	Councillor CE Tshiredo
	Councillor NL Baloyi
	Councillor G Tshililo
	Councillor MA Selapyane
	Councillor NJ Matumba
	Councillor R Ludere
	Councillor NG Mawela
	Councillor TG Mokwena
	Councillor TG Nethengwe

General Information

	Councillor AE Nekhunguni Councillor NM Malume Councillor RL Gadabeni Councillor GN Machobane Councillor TF Chauke Councillor MP Temba Councillor MD Tharaga
Accounting Officer	T. S. Ndou
Chief Finance Officer (CFO)	M. Thangavhuelelo
Registered office	Old Parliament Building Thohoyandou 0950
Postal address	Private Bag X5006 Thohoyandou 0950
Bankers	First National Bank
Auditors	Auditor General South Africa
Audit Committee	E.N Lambani (chairperson) F.O Ndou T.G Nevhutalu M. Kwenamore

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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AC	Audit Committee
AGSA	Auditor General of South Africa
AO	Accounting Officer
CFO	Chief Financial Officer
DRG	Disaster Relief Grant
DWS	Department of Water Services
EM	Executive Mayor
EPWP	Expanded Public Works Programme
FAR	Fixed Asset Register
FMG	Financial Management Grant
FNB	First National Bank
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MMC	Members of Mayoral Committee
VDM	Vhembe District Municipality

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 71, in terms of Section 126(1) of the Municipal Finance Management and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I acknowledge that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I have reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Vhembe District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

The annual financial statements set out on pages 6 to 71, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 October 2020 and were signed on its behalf by:

Accounting Officer
TS NDOU

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services to communities in a sustainable manner, to promote social and economic development, and to promote a safe and healthy environment. and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 204 406 207 (2019: surplus R 194 479 457).

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 3 956 363 422 and that the municipality's total assets exceed its liabilities by R 3 956 363 422.

The municipality is substantially dependent on the government for continued funding of operations. Vhembe District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.The Municipality has been affected by the Covid-19 pandemic which resulted in a lockdown from 26 March 2020. The lockdown has affected the implementation of the municipality projects and other other operations in the municipality. The effects of the pandemic have been assessed to date and no significant threats have been identified which could impact on the going concern of the Municipality.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Corporate governance

The Council

The Council:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Accounting Officer's Report

Audit Committee

Advocate E.N. Lambani was the chairperson of the audit committee for the year under review.

Internal Audit

In terms of Section 166 of the Municipal Finance Management Act, municipality, must appoint members of the Audit Committee. National Treasury policy requires that municipalities should appoint other members of the municipality's audit committees who are not councillors of the municipality onto the audit committee.

7. Bankers

The municipality has its primary bank account with First National Bank.

8. Auditors

Auditor General South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	2	29 543 426	32 850 595
Receivables from exchange transactions	3	30 974 722	23 261 689
Receivables from non-exchange transactions	4	279 441 136	248 499 325
VAT receivable	5	274 142 177	271 223 994
Cash and cash equivalents	6	267 922 866	235 171 212
		882 024 327	**811 006 815**
Non-Current Assets			
Property, plant and equipment	7	4 729 054 169	4 375 819 825
Investment property	8	12 532 799	12 764 524
Intangible assets	9	10 992 736	11 915 356
		4 752 579 704	**4 400 499 705**
Total Assets		**5 634 604 031**	**5 211 506 520**
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	413 275 930	330 800 332
Other liabilities	11	326 804 854	229 215 855
Taxes and transfers payable (non-exchange)	12	45 096 952	45 096 952
Consumer deposits	13	4 409 170	4 409 170
Unspent conditional grants and receipts	14	112 546 939	91 356 029
Provisions	15	69 850 895	54 133 400
Finance lease obligation	16	591 189	1 099 649
		972 575 929	**756 111 387**
Non-Current Liabilities			
Other liabilities	11	705 664 680	702 718 274
Finance lease obligation	16	-	386 884
		705 664 680	**703 105 158**
Total Liabilities		**1 678 240 609**	**1 459 216 545**
Net Assets		**3 956 363 422**	**3 752 289 975**
Accumulated surplus		3 956 363 422	3 752 289 975

* See Note 42

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Water and Waste Water management	18	189 072 097	149 464 868
Rental of facilities and equipment	19	996	1 988
Licence and permits	20	1 624	4 023
Sale of tender documents	22	1 804 829	2 399 961
Rendering of services		663 887	585 073
Interest revenue	23	38 708 122	31 483 212
Other income	24	3 300 404	3 001 978
Gains on disposal of assets		11 586 618	-
Total revenue from exchange transactions		**245 138 577**	**186 941 103**
Revenue from non-exchange transactions			
Taxation revenue			
Licences and Permits (Non-exchange)	21	99 217	65 378
Transfer revenue			
Government grants & subsidies	25	1 546 583 092	1 373 096 359
Total revenue from non-exchange transactions		**1 546 682 309**	**1 373 161 737**
Total revenue	17	**1 791 820 886**	**1 560 102 840**
Expenditure			
Employee related costs	26	(605 453 429)	(520 575 669)
Remuneration of councillors	27	(14 665 338)	(13 331 815)
Depreciation and amortisation	28	(209 516 332)	(189 107 699)
Impairment loss	29	(120 044 257)	(119 231 878)
Finance costs	30	(348 044)	(1 642 741)
Bad debts written off	31	-	(13 947 910)
Bulk purchases	32	(88 827 149)	(107 245 208)
Contracted services	33	(385 971 353)	(254 470 058)
Loss on disposal of assets		(4 731 325)	(5 383 982)
Actuarial losses		(1 600 002)	(582 141)
General Expenses	34	(156 257 450)	(140 104 282)
Total expenditure		**(1 587 414 679)**	**(1 365 623 383)**
Surplus for the year		**204 406 207**	**194 479 457**

* See Note 42

Statement of Changes in Net Assets

Figures in Rand		Accumulated surplus	Total net assets
Balance at 01 July 2018	**-**	**3 895 405 115**	**3 895 405 115**
Changes in net assets			
Correction of errors - Non current assets	-	(8 515 505)	(8 515 505)
Correction of errors - Current assets	-	(3 176 226)	(3 176 226)
Correction of errors - Current liabilities	-	(325 902 866)	(325 902 866)
Net income (losses) recognised directly in net assets	-	(337 594 597)	(337 594 597)
Surplus for the year	-	194 479 457	194 479 457
Total recognised income and expenses for the year	-	(143 115 140)	(143 115 140)
Total changes	-	(143 115 140)	(143 115 140)
Restated* Balance at 01 July 2019		**3 751 957 215**	**3 751 957 215**
Changes in net assets			
Surplus for the year		204 406 207	204 406 207
Total changes		204 406 207	204 406 207
Balance at 30 June 2020		**3 956 363 422**	**3 956 363 422**
Note(s)			

* See Note 42

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Licences and Permits (Non-exchange)		99 217	65 378
Sale of goods and services		58 731 138	170 286 497
Grants		1 567 774 002	1 415 277 000
Interest income		38 708 122	31 483 212
		1 665 312 479	1 617 112 087
Payments			
Employee costs		(604 802 865)	(533 907 484)
Suppliers		(565 779 147)	(582 699 484)
Finance costs		(348 044)	(1 642 741)
		(1 170 930 056)	(1 118 249 709)
Net cash flows from operating activities	35	**494 382 423**	**498 862 378**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(560 999 112)	(412 003 745)
Proceeds from sale of property, plant and equipment	7	66 560	-
Purchase of other intangible assets	9	(1 233 622)	(1 851 877)
Net cash flows from investing activities		**(562 166 174)**	**(413 855 622)**
Cash flows from financing activities			
Repayment of other liabilities		100 535 405	-
Finance lease obligations		-	(1 113 482)
Finance lease payments		-	115 922
Net cash flows from financing activities		**100 535 405**	**(997 560)**
Net increase/(decrease) in cash and cash equivalents		**32 751 654**	**84 009 196**
Cash and cash equivalents at the beginning of the year		235 171 212	151 162 016
Cash and cash equivalents at the end of the year	6	**267 922 866**	**235 171 212**

* See Note 42

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of tender documents	2 382 000	5 283 000	**7 665 000**	1 804 829	**(5 860 171)**	
Sale of water	142 159 000	52 515 000	**194 674 000**	189 072 097	**(5 601 903)**	
Rendering of services	416 000	(295 000)	**121 000**	663 887	**542 887**	
Rental of facilities and equipment	4 000	(2 000)	**2 000**	996	**(1 004)**	
Licences and permits	-	419 000	**419 000**	1 624	**(417 376)**	
Other income	3 872 000	-	**3 872 000**	3 300 404	**(571 596)**	
Interest received - investment	30 723 000	9 018 000	**39 741 000**	38 708 122	**(1 032 878)**	
Total revenue from exchange transactions	**179 556 000**	**66 938 000**	**246 494 000**	**233 551 959**	**(12 942 041)**	
Revenue from non-exchange transactions						
Taxation revenue						
Licences and Permits (Non-exchange)	99 000	(99 000)	-	99 217	**[redacted] 217**	
Transfer revenue						
Government grants & subsidies	1 569 522 088	(253 088)	**1 569 269 000**	1 546 583 092	**(22 685 908)**	
Total revenue from non-exchange transactions	**1 569 621 088**	**(352 088)**	**1 569 [redacted] 000**	**1 546 682 309**	**(22 586 691)**	
Total revenue	**1 749 177 088**	**66 585 912**	**1 815 763 000**	**1 780 234 [redacted]**	**(35 528 732)**	
Expenditure						
Employee related costs	(595 049 695)	1 346 888	**(593 702 807)**	(605 453 429)	**(11 750 622)**	
Remuneration of councillors	(12 834 541)	(2 254 878)	**(15 089 419)**	(14 665 338)	**424 081**	
Depreciation and amortisation	(41 089 782)	(58 910 218)	**(100 000 000)**	(209 516 332)	**(109 516 332)**	
Impairment loss/ Reversal of impairments	-	-	-	(120 044 257)	**(120 044 257)**	
Finance costs	(1 200 000)	853 637	**(346 363)**	(348 044)	**(1 681)**	
Bad debts written off	(54 847 308)	42 202 003	**(12 645 305)**	-	**12 645 305**	
Bulk purchases	-	(41 345 584)	**(41 345 584)**	(88 827 149)	**(47 481 565)**	
Contracted Services	(169 529 043)	(72 030 728)	**(241 559 771)**	(385 971 353)	**(144 411 582)**	
General Expenses	(160 143 331)	27 886 433	**(132 256 898)**	(156 257 450)	**(24 000 552)**	
Total expenditure	**(1 034 [redacted] 700)**	**(102 252 447)**	**(1 136 946 147)**	**(1 581 083 352)**	**(444 137 205)**	
Operating surplus	**714 483 388**	**(35 666 535)**	**678 816 853**	**199 150 916**	**(479 665 937)**	
Loss on disposal of assets and liabilities	-	-	-	(4 731 325)	**(4 731 325)**	
Actuarial gains/losses	-	-	-	(1 600 002)	**(1 600 002)**	
Gain on biological assets and agricultural produce	-	-	-	11 586 618	**11 586 618**	
	-	-	-	**5 255 291**	**[redacted] 255 291**	
Surplus before taxation	**714 483 388**	**(35 666 535)**	**678 816 853**	**204 406 207**	**(474 410 646)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**714 483 388**	**(35 666 535)**	**678 816 853**	**204 406 207**	**(474 410 646)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

Value in use of cash generating assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non- cash generating assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On receivables, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition. The recoverability percentage on receivables is calculated annual per receivables category.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

1.4 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	30-65 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through ■ non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such ■■ spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of ■ revaluation, is credited directly to ■ revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Accounting Policies

1.5 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings [redacted] the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed [redacted] follows:

Item	Depreciation method	Average useful life
Land	Straight line	indefinite
Buildings	Straight line	65 years
Plant and machinery	Straight line	5-21 years
Furniture and fixtures	Straight line	3-26 years
Transport assets	Straight line	4-40 years
Office equipment	Straight line	2-30 years
Computer equipment	Straight line	2-12 years
Infrastructure	Straight line	5-80 years
Community assets	Straight line	30 years
Other property, plant and equipment	Straight line	3-27 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with [redacted] cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined [redacted] the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Accounting Policies

1.6 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through [redacted] non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

After initial recognition, intangible assets are carried at revalued amount, being fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

Any increase in the carrying amount of an intangible asset, as a result of a revaluation, is credited directly to [redacted] revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses [redacted] revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in the carrying amount of an intangible asset, as [redacted] result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited to [redacted] revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised [redacted] an intangible asset.

Amortisation is provided to write down the intangible assets, on [redacted] straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3-20 years

1.7 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Accounting Policies

1.7 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.7 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payable from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires ■ reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in ■ residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in ■ residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of ■ financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in ■ carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either ■ servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, ■ servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, ■ financial asset is derecognised in its entirety but the transfer results in the entity obtaining ■ new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, ■ retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, ■ substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that [redacted] waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When [redacted] lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value [redacted] at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

1.9 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that [redacted] not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories [redacted] sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating [redacted] commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is [redacted] loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that [redacted] largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to ■ reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After ■ reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating ■ reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from ■ cash-generating asset to ■ non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such ■ redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for [redacted] non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been [redacted] change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to [redacted] reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated [redacted] a revaluation increase.

After [redacted] reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on [redacted] systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from [redacted] cash-generating asset to [redacted] non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable [redacted] a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes [redacted] established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created [redacted] valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that [redacted] due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess [redacted] an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences [redacted] the additional amount that the entity expects to pay [redacted] a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has [redacted] present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, [redacted] not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during [redacted] period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of [redacted] minimum funding requirement

The amount determined [redacted] a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using [redacted] discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

1.13 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known [redacted] the accrued benefit method pro-rated on service or [redacted] the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on [redacted] straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations [redacted] conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of [redacted] defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of [redacted] curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised [redacted] a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides ■ gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits [redacted] a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle [redacted] provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated [redacted] a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of [redacted] provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has [redacted] contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as [redacted] provision.

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises ■ a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of ■ debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises ■ provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and ■ reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- ■ decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Accounting Policies

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure is defined in section 1 of MFMA as follows:"unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-

(a) overspending of the total amount appropriated in the municipality's approved budget;
(b) overspending of the total amount appropriated for a vote in the approved budget;
(c) expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) expenditure of money appropriated for a specific purposes, otherwise than for that specific purpose;
(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation;or
(f) a grant by the municipality otherwise than in accordance with this Act.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:

"irregular expenditure", in relation to a municipality or municipal entity, means—

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.22 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- -approved and contracted commitments;
- -where the expenditure has been approved and the contract has been awarded at the reporting date; and
- -where disclosure is required by a specific standard of GRAP.

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.25 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.26 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.27 Value-added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.
The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position

The report on the Value added tax in the Annual Financial Statements is accounted for using the accrual basis.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
2. Inventories		
Maintenance materials	22 597 126	20 253 554
Water for distribution	2 319 375	1 050 241
Consumable stores	4 626 925	11 546 800
	29 543 426	**32 850 595**
3. Receivables from exchange transactions		
Gross balances		
Consumer debtors	320 392 090	196 434 648
Consumer Debtors - Musina	5 837 350	7 469 827
	326 229 440	**203 904 475**
Less: Allowance for impairment		
Provision for debt impairment	(295 254 718)	(180 642 786)
Net balance		
Consumer debtors	320 392 090	196 434 648
Consumer debtors - Musina	5 837 350	7 469 827
Provision for debt impairment	(295 254 718)	(180 642 786)
	30 974 722	**23 261 689**

3. Receivables from exchange transactions (continued)

Water		
(Current)	31 967 393	20 826 164
(30 Days)	19 590 558	15 406 903
(60 Days)	18 606 599	12 294 516
(90 Days)	14 126 731	10 844 333
(120 Days)	13 405 014	1 004 655
(150 Days)	17 434 581	9 388 564
(180 Days)	58 741 210	42 187 339
(210 Days to OVER 1 Year)	152 357 354	82 952 001
	326 229 440	**203 904 475**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(180 427 998)	(65 039 128)
Contributions to allowance	(114 826 720)	(115 603 658)
	(295 254 718)	**(180 [illegible] 786)**

4. Receivables from non-exchange transactions

Debtors - Musina Local Municipality	279 412 750	248 470 939
Other receivables	28 386	28 386
	279 441 136	**248 499 [illegible]**

5. VAT receivable

VAT	274 142 177	271 223 994

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	1 107
Bank balances	267 612 664	234 873 315
Short-term deposits	310 202	296 790
	267 922 866	**235 171 212**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2020	**30 June 2019**	**30 June 2018**	**30 June 2020**	**30 June 2019**	**30 June 2018**
FNB BANK - Current Account (main) - 62021931458	95 356 219	141 192 287	88 764 342	84 426 853	116 072 180	82 151 898
FNB BANK - Thulamela Water - 62370162733	140 676 704	88 440 437	42 704 975	140 331 453	88 569 731	49 907 355
FNB BANK - Makhado Water - 6238768968	41 159 883	29 131 093	17 573 742	41 196 273	29 147 912	17 785 718
FNB BANK - Mutale Water - 62407577131	1 914 613	13 558 381	907 440	1 932 851	1 358 381	655 736
Total	**279 107 419**	**272 [illegible] 198**	**149 950 499**	**267 887 430**	**235 148 204**	**150 500 707**

7. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	17 870 000	-	17 870 000	6 350 000	-	6 350 000
Buildings	122 572 885	(39 078 418)	83 494 467	122 572 885	(34 958 866)	87 614 019
Plant and machinery	9 132 114	(6 845 690)	2 286 424	9 372 722	(5 365 952)	4 006 770
Furniture and fixtures	12 411 561	(7 763 803)	4 647 758	11 807 767	(6 341 139)	5 466 628
Transport assets	87 079 499	(43 619 400)	43 460 099	69 403 395	(36 839 648)	32 563 747
Computer equipment	7 228 036	(5 659 943)	1 568 093	6 925 437	(4 947 239)	1 978 198
Infrastructure	3 540 250 160	(667 859 702)	2 872 390 458	3 409 241 708	(494 775 397)	2 914 466 311
Community assets	27 168 032	(7 695 096)	19 472 936	27 168 032	(6 787 808)	20 380 224
Other property, plant and equipment	26 218 522	(15 226 099)	10 992 423	23 220 322	(11 355 739)	11 864 583
Leased assets	2 876 352	(2 551 308)	325 044	2 876 355	(1 591 897)	1 284 458
Work in progress	1 672 546 467	-	1 672 546 467	1 289 844 887	-	1 289 844 887
Total	**5 525 353 628**	**(796 299 459)**	**4 729 054 169**	**4 978 783 510**	**(602 [redacted] 685)**	**4 375 819 825**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	6 350 000	-	-	11 520 000	-	-	17 870 000
Plant and machinery	4 006 770	-	-	-	(1 183 377)	(536 969)	2 286 424
Buildings	87 614 019	-	-	-	(4 119 552)	-	83 494 467
Furniture and fixtures	5 466 628	682 525	(14 833)	-	(1 379 112)	(107 450)	4 647 758
Transport assets	32 563 747	18 682 155	(320 288)	66 618	(7 195 841)	(336 292)	43 460 099
Computer equipment	1 978 198	469 453	(14 548)	-	(836 458)	(28 552)	1 568 093
Infrastructure	2 914 466 311	33 697 850	(4 391 278)	119 613 568	(186 900 709)	(4 095 284)	2 872 390 458
Community assets	20 380 224	-	-	-	(907 288)	-	19 472 936
Other property, plant and equipment	11 864 583	5 151 981	(56 938)	(1 904 339)	(3 735 085)	(327 779)	10 992 423
Leased Assets	1 284 458	-	-	-	(959 414)	-	325 044
Work in progress	1 289 844 887	502 315 148	-	(119 613 568)	-	-	1 672 546 467
	[illegible] 375 819 825	**560 999 112**	**(4 797 885)**	**9 682 279**	**(207 216 836)**	**(5 [illegible] 326)**	**4 729 054 169**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Correction of prior year error	Total
Land	6 350 000	-	-	-	-	-	-	6 350 000
Plant and machinery	6 166 015	-	(107 428)	-	(678 756)	(1 373 061)	-	4 006 770
Buildings	90 717 853	997 364	-	-	(4 101 198)	-	-	87 614 019
Furniture and fixtures	6 461 202	977 183	(506 362)	-	(1 197 705)	(267 690)	-	5 466 628
Transport assets	35 842 795	4 731 174	-	-	(6 477 779)	(1 532 443)	-	32 563 747
Computer equipment	3 506 501	39 500	(57 288)	-	(1 467 040)	(43 475)	-	1 978 198
Infrastructure	2 916 671 877	-	-	166 453 396	(168 658 962)	-	-	2 914 466 311
Community assets	21 285 034	-	-	-	(904 810)	-	-	20 380 224
Other property, plant and equipment	19 699 195	711 270	(4 712 905)	-	(3 421 426)	(411 551)	-	11 864 583
Leased Assets	2 241 248	-	-	-	(956 790)	-	-	1 284 458
Work in progress	1 052 540 621	440 780 852	-	(166 453 396)	-	-	(37 023 190)	1 289 844 887
	4 161 482 341	**448 237 343**	**(5 383 983)**	**-**	**(187 864 466)**	**(3 628 220)**	**(37 023 190)**	**4 375 819 [illegible]25**

8. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	14 800 000	(2 267 201)	12 532 799	14 800 000	(2 035 476)	12 764 524

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	12 764 524	(231 725)	12 532 799

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	12 995 616	(231 092)	12 764 524

Notes to the Annual Financial Statements

9. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	18 803 892	(7 811 156)	10 992 736	18 753 769	(6 838 413)	11 915 356

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software, other	11 915 356	1 233 622	(2 156 242)	10 992 736

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software, other	12 103 079	1 851 877	(2 039 600)	11 915 356

10. Payables from exchange transactions

Trade payables	16 642 050	9 887 807
Payments received in advanced	42 012 743	42 827 761
Retention	131 056 462	111 263 284
Accrued bonus	13 175 639	10 582 445
Accrued expense	176 589 259	132 629 546
Other payables	3 964 473	10 839 984
Sundry deposits	20 457 875	4 477 067
Deffered revenue from water connections	9 377 429	[illegible] 292 438
	413 275 930	**330 800 332**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Other liabilities

Department of Water and Sanitation	689 782 880	605 836 474
The agreed repayment of debt is 3 million rands a month with no interest charges.		
Makhado Local Municipality	87 881 800	96 881 800
The agreed repayment of debt is 3 million rands [illegible] month with no interest charges.		
Musina Local Municipality	254 804 854	229 215 855
	1 032 469 534	**931 934 129**

Non-current liabilities		
Department of Water Affairs	653 782 880	605 836 474
Makhado Local Municipality	51 881 800	96 881 800
	705 664 680	**702 718 274**

Current liabilities		
Musina Local Municipality	254 804 854	229 215 855
Department of Water Affairs	36 000 000	-
Makhado Local Municipality	36 000 000	-
	326 804 854	**229 215 855**

12. Transfers payable (non-exchange)

Transfers payable	45 096 952	45 096 952

National Treasury last instalment for the 2015/16 unapproved roll over for grant which was not deducted in the 2016/17 financial year.

13. Consumer deposits

Water	4 409 170	4 409 170

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	82 725 189	88 074 017
Municipal Water Infrastructure Grant	27 422 392	2 780 252
Expanded Public Works Programme Integrated Grant	-	83 653
Local Government Financial Management Grant	313 358	418 107
Disaster Relief Grant	2 086 000	-
	112 546 939	**91 [illegible] 029**

15. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave provision	47 150 066	16 766 397	(3 336 130)	-	60 580 333
Performance bonus	91 138	-	-	-	91 138
Long service award	6 892 196	3 887 230	-	(1 600 002)	9 179 424
	54 133 400	**20 653 627**	**(3 336 130)**	**(1 600 002)**	**69 850 895**

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave provision	43 089 790	6 891 566	(2 831 290)	-	47 150 066
Performance bonus	91 138	-	-	-	91 138
Long service award	7 500 380	2 311 958	(2 338 001)	(582 141)	[illegible] 892 196
	50 681 308	**9 203 524**	**(5 169 291)**	**(582 141)**	**54 133 400**

Leave provision

Employee entitlement to annual leave is recognised when it accrues. A provision is made on the estimated liability for annual leave as a result of services rendered by employees up on the amount of the obligations. Provisions at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it no longer probable that an outflow of resources embodying economics benefits or services potential will be required to settle the obligation

Long Service Award provisions

Benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. The leave days awarded have been converted to a percentage of annual salary to the next interval by allowing for future growth.

16. Finance lease obligation

	2020	2019
Non-current liabilities	-	386 884
Current liabilities	591 189	1 099 649
	591 189	**1 486 533**

17. Revenue

	2020	2019
Sale of Tender documents	1 804 829	2 399 961
Rendering of services	663 887	585 073
Service charges - Water and Sanitation	189 072 097	149 464 868
Fire service	996	1 988
Licences and permits	1 624	4 023
Other income	3 300 404	3 001 978
Interest received	38 708 122	31 483 212
Government grants & subsidies	1 546 583 092	1 373 096 359
	1 780 135 051	**1 560 037 [illegible]**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

17. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of tender documents	1 804 829	2 399 961
Service charges - Water and Sanitation	189 072 097	149 464 868
Rendering of services	663 887	585 073
Rental of facilities and equipment	996	1 988
Licences and permits	1 624	4 023
Other income	3 300 404	3 001 978
Interest received	38 708 122	31 483 212
	233 551 959	**186 941 103**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Licences or permits	99 217	65 378
Transfer revenue		
Government grants & subsidies	1 546 583 092	1 373 096 359
	1 [illegible] [illegible] 309	**1 373 161 737**

18. Service charges

Water and Waste Water management	189 072 097	149 464 868

19. Rental of facilities and equipment

Premises		
Premises	996	1 988

20. Licences and permits (exchange)

Health Certificates	1 624	4 023

21. Licences and permits (non-exchange)

Market Porters	99 217	65 378

22. Sale of tender documents

Tender documents	1 804 829	2 399 961

23. Interest revenue

Bank accounts	27 317 351	25 693 497
Interest on receivables	11 390 771	5 789 715
	38 708 122	**31 483 212**

24. Other income

Water connections & Sanitation	3 300 404	3 001 978

Figures in Rand	2020	2019

25. Government grants and subsidies

Operating grants		
Equitable share	996 112 804	910 477 000
Public Transport Network Grant	2 383 000	2 249 000
Expanded public works programme grant	1 275 642	796 893
Financial management grant	2 330 000	1 781 347
	1 002 101 446	**915 304 240**
Capital grants		
Municipal infrastructure grant	520 116 828	415 572 371
Water services infrastructure grant	24 364 818	42 219 748
	544 481 646	**457 792 119**
	1 546 583 092	**1 373 096 359**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	573 156 000	460 918 569
Unconditional grants received	993 123 194	910 477 000
	1 566 279 194	**1 371 395 569**

Municipal Infrastructure Grant

Balance unspent at beginning of year	88 074 017	32 536 816
Current-year receipts	514 768 000	503 646 000
Conditions met - transferred to revenue	(520 116 828)	(415 572 371)
Amount withheld by national treasury	-	(32 536 428)
	82 725 189	**88 074 017**

Conditions still to be met - remain liabilities (see note 14).

Water Services Infrastructure Grant

Balance unspent at beginning of year	2 780 252	15 009 190
Current-year receipts	50 000 000	45 000 000
Conditions met - transferred to revenue	(24 364 818)	(42 219 748)
Amount withheld by national treasury	(993 042)	(15 009 190)
	27 422 [illegible]	**2 780 252**

Conditions still to be met - remain liabilities (see note 14).

Financial Management Grant

Balance unspent at beginning of year	83 653	-
Current-year receipts	2 330 000	1 865 000
Conditions met - transferred to revenue	(2 413 653)	(1 781 347)
	-	**83 653**

Conditions still to be met - remain liabilities (see note 14).

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

25. Government grants and subsidies (continued)

Expanded Public Works Programme

	2020	2019
Balance unspent at beginning of year	418 107	711 279
Current-year receipts	1 589 000	1 215 000
Conditions met - transferred to revenue	(1 693 749)	(796 893)
Amount withheld by national treasury	-	(711 279)
	313 358	**418 107**

Conditions still to be met - remain liabilities (see note 14).

Rural Roads Asset Management Systems Grant

	2020	2019
Balance unspent at beginning of year	-	918 103
Current-year receipts	2 383 000	2 249 000
Conditions met - transferred to revenue	(2 383 000)	(2 249 000)
Amount withheld by national treasury	-	(918 103)
	-	-

Conditions still to be met - remain liabilities (see note 14).

26. Employee related costs

	2020	2019
Basic	380 207 833	328 710 283
Bonus	31 938 383	28 437 753
Social contributions: Medical aid	16 500 281	14 854 064
Social contributions: Unemployment Insurance Fund	3 100 801	2 558 511
Leave pay provision charge	16 744 401	6 793 580
Social contributions: Bargaining Council	149 285	(36 990)
Social contributions: Pension	63 796 959	56 673 525
Allowance: Travel or motor car, accommodation, subsistence	26 370 444	27 920 163
Allowance: Overtime	53 071 766	37 339 856
Other benefits: Long-service awards	1 782 843	6 554 620
Car allowance	622 253	-
Allowance: Housing benefits	330 632	340 491
Allowance: Standby	10 620 497	10 390 558
Allowance: Other	480	39 255
	605 236 [redacted]	**520 575 669**

Municipal Manager

	2020	2019
Annual Remuneration	853 684	571 913
Acting allowance	54 651	100 383
Backpay	28 367	39 792
Car Allowance	266 714	169 736
Car Reimbursement	41 700	22 115
Cellphone allowance	27 500	20 000
Contributions to UIF, medical and pension funds	236 310	218 709
Subsistence allowance	3 529	957
Bonus	76 940	-
	1 589 385	**1 143 605**

TS Ndou acted as the Municipal Manager from 1 July 2019 to 30 November 2019.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

26. Employee related costs (continued)

Chief Finance Officer

Annual Remuneration	218 549	517 984
Backpay	2 404	32 888
Acting allowance	77 835	34 068
Car Allowance	76 554	90 450
Contributions to UIF, Medical and Pension Funds	69 951	166 150
Housing allowance	-	18 800
Non-pensionable income	-	128 934
Cellphone allowance	8 000	19 300
Bonus	-	57 554
Subsitence allowance	-	128
	375 458	**1 066 256**

Mufamadi DT acted as the CFO from 1 July 2019 to 15 March 2020.

Technical Manager

Annual Remuneration	664 058	706 184
Backpay	-	69 345
Car Allowance	188 867	184 585
Car Reimbursement	23 150	-
Cellphone allowance	14 400	24 000
Acting Allowance	34 472	-
Contributions to UIF, Medical and Pension Funds	18 073	11 257
Non-pensionable income	-	292 630
Subsitence allowance	240	847
	[redacted] 260	**1 288 849**

Chauke F acted [redacted] the Manager Technical Services from 20 February 2020 to 30 June 2020.

General Manager Planning

Annual Remuneration	776 954	711 779
Backpay	-	32 510
Car Allowance	94 860	92 025
Car re-imursement	46 296	46 784
Cellphone allowance	24 000	24 000
Contributions to UIF, Medical and Pension Funds	152 639	140 460
Housing allowance	198 098	192 178
Subsitence allowance	1 663	2 053
Bonus	65 116	56 047
	1 359 626	**1 297 836**

Figures in Rand	2020	2019

26. Employee related costs (continued)

General Manager Corporate Services

Annual Remuneration	289 799	711 779
Acting allowance	115 117	9 181
Backpay	-	32 510
Car Allowance	52 555	221 860
Car reimbursement	-	3 783
Cellphone allowance	6 000	24 000
Contributions to UIF, Medical and Pension Funds	57 464	203 417
Bonus	24 150	61 142
Subsistance allowance	-	1 066
	429 968	**1 268 738**

Mphaphuli K acted as the General Corporate Services from 1 July 2019 to 15 May 2020.

General Manager Community Services

Annual Remuneration	776 954	697 988
Car Allowance	233 716	182 506
Bonus	65 116	56 040
Contributions to UIF, Medical and Pension Funds	210 965	194 035
Backpay	-	32 510
Car reimbursement	-	5 952
Callphone allowance	24 000	24 000
Subsistence allowance	-	223
	1 310 751	**1 193 252**

27. Remuneration of councillors

Executive Mayor	904 256	744 054
Chief Whip	713 124	474 155
Speaker	757 478	505 764
Mayoral Committee Members	2 838 779	3 909 645
Councillors	9 451 701	7 698 197
	14 665 338	**13 331 815**

28. Depreciation and amortisation

Property, plant and equipment	209 516 332	189 107 699

29. Impairment of assets

Impairments		
Property, plant and equipment	5 432 325	3 628 220
Property, plant and equipment whose condition was assessed by very poor and broken was impaired during the year.		
Trade and other receivables	114 611 932	115 603 658
Consumer debtors have been assessed for impairment at the end of each reporting period based on debt impairment policy and all consumer debtors with an objective evidence of impairment have been impaired.		
	120 044 257	**119 231 878**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

30. Finance costs

Interest on late payments	348 044	1 642 741

31. Bad debts

Bad debts written off	-	13 947 910

32. Bulk purchases

Water	88 827 149	107 245 208

33. Contracted services

Outsourced Services		
Administrative and Support Staff	83 320	5 949 792
Business and Advisory	190 000	86 989
Hygiene Services	-	28 276
Medical Services [Medical Health Services & Suppor	-	4 532
Personnel and Labour	17 958 150	22 166 761
Professional Staff	441 940	706 408
Consultants and Professional Services		
Business and Advisory	34 926 324	20 468 485
Laboratory Services	8 131 275	28 009
Legal Cost	33 662 139	33 247 567
Contractors		
Employee Wellness	111 390	31 652
Event Promoters	303 904	258 380
Maintenance of Buildings and Facilities	1 362 363	750 320
Maintenance of Equipment	286 889 220	165 064 508
Maintenance of Unspecified Assets	1 911 328	5 678 379
	385 971 353	**254 470 058**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

34. General expenses

Audit Fees	6 096 306	6 200 932
Advertising	1 823 366	2 273 572
Assessment rates & municipal charges	73 180 705	69 632 127
Bank charges	409 717	169 738
Licences	642 259	221 426
Consumables	-	2 069 296
Entertainment	24 980	105 588
Copyright fees	23 625	9 975
Lease rentals on operating lease	1 650 760	1 224 641
Insurance	5 126 538	5 233 979
Conferences and seminars	336 658	159 420
Computer expenses	2 595 204	1 103 227
Skills development fund	1 682	-
Fuel and oil	8 341 681	6 654 041
Postage and courier	292 047	6 290
Printing and stationery	115 500	-
Protective clothing	88 348	1 081 169
Subscriptions and membership fees	6 191 042	5 697 007
Telephone and fax	4 003 844	3 983 570
Travel - local	2 430	333 035
Water services expenditure	25 588 998	24 806 836
Accommodation	2 152 546	1 202 517
Mayor's bursary fund	670 435	1 173 974
Chemicals	16 898 779	6 761 922
	156 257 450	**140 104 282**

35. Cash generated from operations

Surplus	204 406 207	194 479 457
Adjustments for:		
Depreciation and amortisation	209 516 332	189 107 699
(Loss) gain on sale of assets and liabilities	(4 731 325)	5 383 982
Impairment loss	120 044 257	119 231 878
Bad debts written off	-	13 947 910
Movements in provisions	15 717 495	3 452 092
Other non-cash items	1 600 002	582 141
Changes in working capital:		
Inventories	3 307 169	(15 494 378)
Receivables from exchange transactions	(125 284 228)	(90 887 188)
Other receivables from non-exchange transactions	(30 941 811)	(21 661 489)
VAT receivable	(2 918 183)	(133 085 376)
Payables from exchange transactions	82 475 598	191 625 009
Unspent conditional grants and receipts	21 190 910	42 180 641
	494 382 423	**498 862 378**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

36. Commitments

Capital commitments

Already contracted for but not provided for		
• Property, plant and equipment	1 455 249 495	1 952 114 043
Total capital commitments		
Already contracted for but not provided for	1 455 249 495	1 952 114 043

Authorised operational expenditure

Already contracted for but not provided for		
• Provision of Quarterly Newsletters	268 000	594 000
• Procurement of LAN upgrade for Fire Stations	675 000	-
• Development of Sludge Management Plan for Waste Water Works	-	4 294 000
• Repairs of Office Equipment, Plant and Transport Assets	530 755	-
• Procurement of contract / call center	230 602	-
• Office software	6 553 016	1 364 520
• Supply of Uniforms of Security officers	403 146	-
• Virtual Private Network(VPN)	3 042 022	-
• Storage and server visualisation	129 375	116 537
• Catering Services	-	2 500
• Refurbishment, Testing, Drilling and Cleaning of Boreholes and Water Pumps	5 745 491	8 815 385
• Provision of Transport Facilities	-	39 000
• Relocation of Records Management	58 328	-
• Accommodation, flight, meal and car hire	-	70 990
• Provision of CCTV assessment, reinstate and installation	461	-
• Supply of storage Tanks and extension of Reticulation	297 691	-
• Provision of Global Positioning System(GPS)	159 600	-
• Supply of Laptops	6 278 527	-
• Supply of Uniforms and Protective Clothing	21 400	3 335 873
• Staff training	-	720 000
• Supply of Portable Air Quality Monitoring Equipment	-	190 000
• Installation of Prepaid Meters	-	2 933 550
• Review of Intergrated Transport Plan	-	882 963
• Supply of Motor Vehicles	-	662 977
• Construction of Concrete Pump House	-	230 150
• Property, Plant and Equipment Verification	-	1 500 000
	24 393 414	**25 752 445**
Total operational commitments		
Already contracted for but not provided for	24 393 414	25 752 445

Total commitments

Total commitments		
Authorised capital expenditure	1 455 249 495	1 952 114 043
Authorised operational expenditure	24 393 414	25 752 445
	1 479 642 909	**1 977 866 [illegible]**

This committed expenditure relates to plant and equipment and will be financed by grants and other existing cash resources.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

36. Commitments (continued)

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	2 183 363	2 043 543
- in second to fifth year inclusive	8 908 132	371 161
	11 091 [illegible]	**2 414 704**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases [illegible] negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

37. Contingencies

Contingent Liabilities:

Capstain Trading 215 CC	608 660	608 660
Getrudsburg Community	17 375 599	17 375 599
MICS Empowerment Group	1 508 531	1 508 531
Generic Core/Debrob Business Enterprises	904 924	904 924
Tricks Wrought Iron Services (Pty) Ltd	1 419 871	1 419 871
Gudani Security	2 300 064	2 300 064
Sharon Pipeline Specialists	2 488 975	2 488 975
Nevondo Azwihangwisi Andries	2 000 000	2 000 000
Tinyiko Manganyi OBO Manganyi Andile	4 100 000	4 100 000
Munzhelele Mashudu Maryrose	5 000 000	5 000 000
Mudalamo Madalo (Mandiwana Tshifhiwa)	33 318	33 318
Tshwane Trading	595 650	595 650
Konani Trading	783 864	783 864
K. T. Ntsikazi	3 708 956	3 708 956
Stan South Financial and Investment Services cc	11 644 558	11 644 558
Hermans Truck Accident Repairs (Pty) Ltd	142 843	142 843
Thiambi Winnie Phuluwa	200 000	200 000
Risimati Christopher Mabasa	35 707	35 707
Babusekile Business Enterprises	2 312 958	2 312 958
RYM Construction Enterprise	2 033 290	2 033 290
Advocate Nemugomoni	178 524	-
BMK Electronics	3 899 782	3 899 782
Tshavhungwe Tshambiluni Godfrey	780 000	-
Johan Van Der Horst	514 158	-
Phuluwa Thinashaka Reuben	3 500 000	-
	68 070 232	**63 097 550**

1. Capstain Trading

Capstain Trading is litigating against the municipality [illegible] they are alleging that they are owed for service rendered.

The Municipality contracted the plaintiff who subsequently entered into a cession agreement with a third party, which cession was approved by the Municipality.

The third party provided the service and was paid the contract amount of R608 660,42. The municipality paid the third party on the strength of the cession agreement. Capstain Trading is claiming that the contract fee should have been paid to them and not to the third party. The case is still pending, and the estimated claim is R608 660,42.

37. Contingencies (continued)

2. Getrusburg Community Property Association

The Association is suing the Makhado Municipality for R 17 375 599.00 for drawing borehole water from its premises without consent. Makhado Municipality has joined VDM [redacted] Water Services Authority. The Municipality is defending the case.

3. MICS Empowerment

MICS Empowerment is litigating against the Municipality as they [redacted] alleging that they have serviced water equipment which was taken from the National Department of Water Affairs as the former Water Service Authority. The Municipality is disputing the claim as it does not have a contractual relationship with MICS Empowerment. The estimated claim amounts to R 1 808 531.33, including legal costs and disbursements. The case is still pending

4. Generic Core/Denrob Business Enterprises

Generic Core, [redacted] sub-contractor, is suing Denrob Business Enterprises for R 904,924.10 for work performed. The Municipality is [redacted] joinder due to a contractual relationship with Denrob Enterprises [redacted] the main contractor. The estimated disbursement is R400, 000.00 and the case is still pending.

5. Tricks Wrought

Tricks Wrought instituted [redacted] claim of R 1,419, 871.00 for not honoring a cession agreement. The Municipality contracted Ratekuwa who subsequently entered into a cession agreement with Tricks Wrought, the plaintiff, which cession was approved by the Municipality. Tricks Wrought provided the service and the municipality paid the main contractor, Ratekuwa.

Tricks Wrought is claiming that the money for the service rendered should have been paid directly to them and not to the main contractor, Ratekuwa. The Municipality is disputing the claim. The case is pending.

6. Gudani Security

Gudani Security is litigating against the Municipality as they are alleging that they have rendered security service and have not been paid. They are suing the municipality for an amount of R2, 300, 064.00. The Municipality is defending the case.

7. Sharon Pipeline Specialists

Sharon pipeline is litigating against the municipality as they are alleging that they provided services and have not been paid.Sharon is suing the municipality for an amount of R 2,488,975.22. The municipality is defending the case. The case is still pending.

8. Nevondo Azwihangwisi Andries

Mr. Nevondo Azwihangwisi is claiming that the Municipality is owing him an amount of R2,000,000.00 for pension. The municipality is disputing the case [redacted] the pension amount should be paid from GEPF. The case is still pending.

9. Tinyiko Mangayi Obo Manganyi Andile

The plaintiff is suing the municipality for injuries sustained after she fell into an unprotected pit hole left by the municipality, the total estimated claim is: R 1 000 000

10. Munzhelele Mashudu Maryrose

Mashudu is litigating against the municipality as she alleges that she has lost her house due to fire because of negligence by municipality fire officials and their late response on cases [redacted] such. She is claiming an amount of R1 900 000.00 as the value of the burnt house, R450 000.00 as the value of the burnt properties, R25 500.00 as rent lost, R4500 as rent from March 2016 to date of final payment. The municipality is defending the case.

11. Mundalamo Madala (Mandiwana Tshifhiwa)

Tshifiwa has instituted a claim against the Municipality as he alleges that there was an accident between his car and the Municipality's car which was being driven by Mundalamo A at the time of the accident. He claims an amount of R33 318.08 being damages suffered in repair of the car. The Municipality is defending the case.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

37. Contingencies (continued)

12. Tshwane Trading

Tshwane has instituted a claim against the Municipality [redacted] they alleged that they have suffered damages because of the Municipality failing to comply with the training agreement that was concluded. The claim amount is R595 650.00.

13. Konani Trading

Konani has instituted a claim against the municipality as they alleged that they have suffered damages because of the municipality failing to comply with the training agreement that was concluded. The claim amount is R 783 864.00.

14 K. T. Nsikazi.Com

The plaintiff is claiming an amount of R3 708 956.36 for IT hardware that was leased to the municipality. The plaintiff is alleging that the municipality never returned the leased IT hardware material upon the expiry of the lease contract. The municipality is disputing the case as they are no longer in possession of the IT hardware material, as it was delivered to the plaintiff's business offices and there was an acknowledgment of receipt of the hardware material. The case is still pending.

15. Stan South Financial and Investment Services. CC.

Stan South Financial and Investment Services CC was appointed by the Municipality to assist in VAT recoveries from South African Revenue Authority (SARS). The Plaintiff is claiming an amount of R11 644 558,18 for the services rendered and the Municipality is disputing the Claim as it is not substantiated.

16. Hermans Truck Accident Repairs (Pty)Ltd|

Hermans Truck Accident Repairs (PTY) LTD has instituted [redacted] claim against Vhembe District Municipality for not paying them an amount of R142,843.41. This amount is for towing and storage.

17. Thiambi Winnie Phuluwa

Thiambi Winnie Phuluwa is suing the Municipality for an amount of R 200,000.00 including her legal costs, claiming that a motor vehicle belonging to the Municipality was the sole cause of that accident. The case is pending.

18. Risimati Christopher Mabasa

Risimati Christopher Mabasa has instituted a claim against the Municipality of R35 707 in that his vehicle was involved in an accident which he claims was caused by [redacted] vehicle belonging to the Municipality. The Municipality is defending the matter.

19. Babusekile Business Enterprises

Babusekile Business Enterprises is litigating against the Municipality as they are alleging that the Municipality is owing them R2,312,958.06 for services rendered. The Municipality is defending the matter.

20. RHYM Construction Enterprises

Rhym Construction Enterprises is litigating against the Municipality as they are alleging that the Municipality is owing them R2,033,2909.60 for Retention. The Municipality is defending the matter.

21. Advocate Nemugumoni

The Plaintiff Advocate Nemugomoni is suing the municipality, alleging that he was underpaid during his course of employment.Advocate Nemugomoni was an audit committee member of the municipality and he is alleging that the municipality used to compensate him based on an incorrect rate since March 2012. The municipality used to use the rate that was linked to the plaintiff's qualification [redacted] opposed to the rate that was linked to the tittle. The plaintiff wishes to be compensated in a fair rate. The case is still pending, and the estimated claim is R178 524.00.

22. BMK Electronics

The plaintiff is suing the municipality for unpaid invoices for services rendered, the total estimated claim is: R3 899 782.35.

Figures in Rand	2020	2019

37. Contingencies (continued)

23. Tshavhungwe Tshambiluni Godfrey

The plaintiff is suing the municipality for an amount of R780 000 for damages in respect of pain and emotional suffering. The plaintiff is claiming that the Municipality exhumed the graves and the remains found in the Davhana Traditional area. The municipality was installing water pipelines. The Municipality is defending the matter.

24. Johan Van Der Horst

The plaintiff is litigating against the municipality as he alleges that he has lost his house due to fire as a result of negligence by municipality fire officials and their non-response on this case. He is claiming an amount of R514 158.00 as the value of the burnt house, furniture and clothing. The municipality is defending the case.

25. Phuluwa Thinashaka Reuben

The plaintiff is suing the municipality for injuries sustained while using the municipal vehicle, which did not have seat belt. The plaintiff is employed by the municipality and is alleging that the injuries could have been avoided had the seat belt was in place.The estimated claim amounts to R3 500 000.

38. Unauthorised expenditure

Opening balance as previously reported	1 233 809 806	674 194 388
Opening balance as restated	**1 233 809 806**	**674 194 388**
Add: Expenditure identified - current	445 737 207	559 615 418
Less: Amount written-current year	(1 233 809 806)	-
Closing balance	**445 737 207**	**1 233 809 806**

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	229 841 827	288 121 596
Cash	215 895 380	271 493 822
	445 737 207	**[illegible] 615 418**

Analysed as follows: non-cash

Employee related cost	11 750 622	-
Depreciation and amortisation	109 516 332	169 104 506
Provision of impairment	107 398 952	119 017 090
Actuarial Loss	1 175 921	-
	229 841 827	**288 121 596**

Analysed [illegible] follows: cash

Bulk purchases	47 481 565	79 345 208
Contracted services	144 411 582	188 768 058
General expenditure	24 000 552	-
Remuneration of councillors	-	2 928 815
Finance costs	1 681	451 741
	215 895 380	**271 493 822**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

39. Fruitless and wasteful expenditure

Opening balance as previously reported	255 148	1 219 118
Correction of prior period error	-	15 977 793
Opening balance as restated	**[illegible] 148**	**17 196 911**
Add: Expenditure identified - current	348 044	861 450
Add: Expenditure identified - prior period	-	28 601
Less: Amount written off	(348 044)	(17 831 814)
Closing balance	**255 148**	**255 148**

40. Irregular expenditure

Opening balance as previously reported	86 782 156	52 793 393
Correction of Prior Period Error	-	3 757 049
Opening balance as restated	**86 782 156**	**56 550 442**
Add: Irregular Expenditure - current	68 036 785	30 231 714
Less: Amount written off - current	(86 782 156)	-
Closing balance	**68 036 785**	**86 [illegible] 156**

41. Additional disclosure in terms of Municipal Finance Management Act

SALGA

Current year subscription / fee	6 024 280	5 522 680
Amount paid - current year	(6 024 280)	(5 522 680)
	-	-

Material losses

Water losses	323 540 495	215 693 932

Water

Water losses are caused by leakage on transmission and distribution mains, leakage on service connections up to the point of customer meter.

Water losses percentages are 39.3% (2018/19) and 41.5% (2019/20).

Audit fees

Current year subscription / fee	6 096 306	7 130 225
Amount paid - current year	(6 096 306)	(7 130 225)
	-	-

PAYE and UIF

Opening balance	6 101 126	6 753 483
Current year subscription / fee	96 189 119	73 993 271
Amount paid - current year	(94 399 212)	(67 892 145)
Amount paid - previous years	-	(6 753 483)
	7 891 033	**[illegible] 101 126**

The balance represents PAYE and UIF deducted from the June 2020 payroll. These amounts were paid during July 2020.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

41. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Current year subscription / fee	121 429 226	78 437 904
Amount paid - current year	(110 823 492)	(71 093 171)
	10 605 734	**7 344 733**

The balance represents Pension and Medical aid contributions deducted from employees in the June 2020 payroll as well as councillors' contributions to Pension and Medical Aid Funds.These amounts were paid in July 2020.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor MS Machete	412	3	415
Councillor PE Mawela	84	637	721
	496	[illegible]	**1 136**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor TF Chauke	51	341	392
Councillor TS Magada	61	1 400	1 461
Councillor PE Mawela	51	341	392
Councillor TS Mbedzi	51	341	392
Councillor RS Ndou	132	881	1 013
Councillor NE Ngobeni	2 023	1 931	3 954
Councillor TN Ndlovu	246	8 997	9 243
Councillor G Tshililo	90	605	695
	2 705	**14 837**	**17 [illegible]**

Deviations from Supply Chain Management Regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been approved by the Accounting Officer and noted by Council.

Incident		
Repairs and Maintenance of Vehicles and Equipment	2 745 980	1 236 449
Advertising and Marketing	312 059	245 573
Staff Training and Development	138 108	87 414
Human Resources Services	-	12 229
Disaster Management	1 276 810	1 008 900
IT Services	112 717	10 125
Professional Services	54 500	104 667
Payroll Services	-	61 303
Accommodation and conference	173 359	-
	4 813 533	**[illegible] 660**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

42. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year correction of error:

Statement of financial position

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Inventories	2	30 331 976	2 518 619	-	32 850 595
Receivables from exchange transactions	3	40 303 749	(13 817 118)	3 224 942	29 711 573
Receivables from non exchange transactions	4	242 056 936	6 442 389	-	248 499 325
VAT receivable		223 933 502	47 290 492	-	271 223 994
Cash and cash equivalents	6	235 171 458	(246)	-	235 171 212
Property, plant and equipment	7	4 409 841 015	(34 021 190)	-	4 375 819 825
Investment property	[illegible]	12 764 524	-	-	12 764 524
Intangible assets	9	11 915 356	-	-	11 915 356
Payables from exchange transactions	10	(923 144 743)	41 992 846	543 901 681	(337 250 216)
Other liabilities		-	-	(229 215 855)	(229 215 855)
Taxes and transfers payables (non -exchange)	12	(45 096 952)	-	-	(45 096 952)
Cunsumer deposits	13	(4 409 170)	-	-	(4 409 170)
Unspent conditional grants	14	(93 029 819)	1 673 790	-	(91 356 029)
Provisions	15	(54 133 400)	-	-	(54 133 400)
Finance lease obligation (current portion)	16	(1 099 649)	-	-	(1 099 649)
Finance lease obligation (non-current portion)	16	(386 884)	-	-	(386 884)
Other Liabilities - Non-current portion		-	(384 807 506)	(317 910 768)	(702 718 274)
Accumulated surplus		(4 085 017 899)	332 727 924	-	(3 752 289 975)
		-	-	-	-

42. Prior-year adjustments (continued)

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Sale of water	18	149 936 614	(471 746)	-	149 464 868
Rendering of services		585 073	-	-	585 073
Rental of Facilities and equipment	19	1 988	-	-	1 988
Sale of tender documents	22	2 399 961	-	-	2 399 961
Licences and permits	20	69 401	-	(65 378)	4 023
Interest received - Investment		31 483 212	-	-	31 483 212
Other income	24	[redacted] 076 256	(5 074 280)	-	3 001 976
Government grants and subsidies	25	1 371 422 569	1 673 790	-	1 373 096 359
Licences and Permits (Non-exchange)		-	-	65 378	65 378
Employee related costs	26	(520 575 669)	-	-	(520 575 669)
Remuneration of councilors	26	(13 331 815)	-	-	(13 331 815)
Depreciation and amortisation	27	(189 104 506)	(3 193)	-	(189 107 699)
Impairment loss	28	(119 017 090)	(214 788)	-	(119 231 878)
Finance costs	29	(1 642 741)	-	-	(1 642 741)
Debt debts written off	30	(13 947 910)	-	-	(13 947 910)
Bulk purchases		(107 245 208)	-	-	(107 245 208)
Contracted services		(254 470 058)	-	-	(254 470 058)
Gain or loss on disposal of assets	33	(5 383 982)	-	-	(5 383 982)
General expenditure	34	(149 061 170)	8 956 888	-	(140 104 282)
Actuarial gains / losses		(582 141)	-	-	(582 141)
Surplus for the year		**189 612 784**	**4 866 671**	**-**	**194 479 455**

2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

42. Prior-year adjustments (continued)

Cash flow statement

2019

			Note	As previously reported
Cash flow from operating activities				
Sale of goods and services		170 351 875	(206 959 265)	(36 607 390)
Grants		1 415 277 000	-	1 415 277 000
Interest income		31 483 212	-	31 483 212
Licences and permits		-	65 378	65 378
Employee costs		(533 907 484)	3 452 092	(530 455 392)
Suppliers		(418 788 952)	84 143 147	(334 645 805)
Finance costs		(1 642 741)	-	(1 642 741)
		662 772 910	**(119 298 648)**	**[redacted] 474 [redacted]**
Cash flow from investing activities				
Purchase of property, plant and equipment	7	(575 914 031)	119 298 402	(456 615 629)
Purchase of intangible assets	9	(1 851 887)	-	(1 851 887)
		(577 765 918)	**119 298 402**	**(458 467 516)**
Cash flow from financing activities				
Finance lease obligations		(997 560)	-	(997 560)

42. Prior-year adjustments (continued)

Errors

Trade and other receivables from exchange transactions
Decrease by R2 644 343, this decrease is due to the adjustment of billing for Musina area consumer debtors for 2018 financial year, Musina area consumer debtors were increased by an incorrect billing of R34 064 755 instead of R31 425 412. Therefore Musina [redacted] consumer debtors were decreased by R34 064 755 and increased by R31 425 412.

Decrease by R4 758 697, this decrease is due to the prior year adjustment of Musina area consumer debtors collection, Musina [redacted] consumer debtors were were decreased by R27 595 656 of collections instead of R32 354 353 of collections. Therefore Musina area consumer debtors were increased by R27 595 656 and decreased by R32 354 353.

Decrease by R4 254 506, this decrease is due to the adjustment of billing for Musina area consumer debtors for 2019 financial year, Musina area consumer debtors were increased by an incorrect billing of R31 279 436 instead of 27 024 930. Therefore Musina area consumer debtors were decreased by R34 064 755 and increased by R27 595 656.

Decrease by R2 234 010, this decrease is due to the prior year adjustment of Musina area consumer debtors collection, Musina area consumer debtors were were decreased by R29 110 288 of collections instead of R31 344 298 of collections. Therefore Musina area consumer debtors were increased by R29 110 288 and decreased by R31 344 298.

Decrease by R3 224 942, this decrease is due to correction of reclassification of Musina area consumer debtors with negative balances from Trade and other Receivabales from exchange transactions to Trade and other payables from exchange transactions of R27 242 179 instead of R24 017 236.93. Therefore Musina area consumer debtors were decreased by R27 242 179 and increased by R24 017 236.93.

Trade and other receivables from non exchange transactions
The increase in Trade and other receivables from non-exchange receivables is due to correction of error adjustment amounting to R6 442 389. The correction of error is made up [redacted] follows:

Increase by R4 758 697, this increase is due to the collection from Musina area consumer debtors for water and sewerage billing which was previously accounted as R27 595 656 instead of R32 354 353 in VDM. Therefore this increase Debtor-Musina by R32 354 353 and decrease by R27 595 656. The amount was collected by Musina Local Municipality on behalf of VDM, however Musina has not yet paid the amount collected from water consumer debtors to VDM.

Increase by R830 821, this increase is due to prepaid sale of water and water connections by Musina local Municipality on behalf of VDM, however Musina has not yet paid the amount collected to VDM. Therefore Debtor-Musina increase by R830 821. This also increase Revenue from Sale of water and Water connection by R714 108 and R116 713 respectively

Increase by R642 335, this increase is due to prepaid water and water connections by Musina Local Municipality on behalf of VDM, however Musina has not yet paid the amount collected to VDM.

Inventories
The increase in Inventory of R2 518 620 is due to an increase in maintenance materials and consumable stores inventory on hand. The decrease is made up as follows:

Increase by R1 019 457 due to correction of materials maintenance inventory valuation for 2018-19 financial year. Increase by R1 499 162 due to correction of consumable stores inventory valuation for 2018-19 financial year. Correction increases maintenance materials inventory opening balance in 2018-19 by R1 019 457, consumables materials by R1 499 162 and reduces creditors by R1 570 076 decreases accumulated surplus by R948 543.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

43. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Related Government Entities	Makhado Local Municipality Musina Local Municipality Mutale Local Municipality
Controlling entity	Thulamela Local Municipality
Members of key management	TS Ndou - Municipal Manager appointed (1 December 2019 to date). TS Ndou - Municipal Manager appointed (1 December 2019 to date). O Nthutang - Acting General Manager Technical Services - (1 July 2019 to 19 February 2020). Chauke F - Acting Manager Technical Services - (20 February 2020 to date). Mphaphuli K - Acting General Manager Corporate Services - (1 July 2019 to date). Mufamadi T - Acting Chief Financial Officer - (1 July 2019 to 15 March 2020). M Thangavhuelelo - Chief Financial Officer - (16 March 2020 to date). Tshivinda M - General Manager : Planning and Development - (1 May 2018 to date). Mathule N - General Manager: Community Services - (1 July 2016 to date).

Related party balances

Amounts included in Trade receivable / (Trade Payable) regarding related parties		
Musina Local Municipality	279 412 750	248 470 939
Makhado Local Municipality	(87 881 800)	(96 881 800)
Musina Local Municipality	(254 804 854)	(229 215 855)

Remuneration of management

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

43. Related parties (continued)

Management class: Councillors

2020

Name	Basic salary	Cellphone allowance	Subsistence and travel allowance	Arrears	Contribution to UIF, Medical Aid and Pension funds	Sitting Allowance	Acting Allowance	Total
Mayoral committee members	2 096 415	119 000	500 997	98 129	24 238	-	-	2 838 779
Councillors	6 257 918	775 200	1 526 515	237 961	70 339	541 007	33 999	9 442 939
Executive Mayor	862 336	40 800	1 120	-	-	-	-	904 256
Speaker	517 400	40 800	174 067	25 211	5 573	-	-	763 051
Chief Whip	619 893	40 800	26 858	23 635	5 126	-	-	716 313
	10 353 962	**1 016 600**	**2 229 557**	**384 936**	**105 276**	**541 007**	**33 999**	**14 665 338**

2019

Name	Basic salary	Cellphone allowance	Subsistence and travel allowance	Contribution to UIF, Medical Aid and Pension funds	Sitting allowance	Total
Mayoral committee members	1 536 656	122 400	534 700	17 276	-	2 211 032
Councillors	6 280 857	807 964	2 638 432	74 943	703 106	10 505 302
Executive Mayor	484 121	37 246	28 332	3 750	-	553 449
Speaker	518 987	40 800	175 488	5 156	-	740 431
Chiefwhip	486 551	40 800	160 356	4 547	-	692 254
	9 307 172	**1 049 210**	**3 537 308**	**105 672**	**703 106**	**14 702 468**

Mayoral committe members

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

43. Related parties (continued)

2020

Name	Basic salary	Cellphone allowance	Subsistence and travel allowances	Arrears	Contribution to UIF, Medical Aid and Pension funds	Total
Mbedzi TS	485 063	40 800	166 084	23 635	5 344	720 926
Chavana PJ	443 164	37 400	147 722	23 635	6 088	658 009
Radamba NC	341 562	-	2 921	13 662	3 598	361 743
Mathukha NR	341 562	-	21 516	13 662	3 560	380 300
Magada MR	485 064	40 800	162 754	23 535	5 648	717 801
	2 096 415	**119 000**	**500 997**	**98 129**	**24 238**	**2 838 779**

2019

Name	Basic salary	Cellphone allowance	Subsistence and travel allowances	Contribution to UIF, Medical Aid and Pension funds	Total
Mbedzi TS	486 551	40 800	218 618	4 912	750 881
Chavana PJ	182 273	-	17 325	1 817	201 415
Radamba NC	486 551	40 800	158 051	6 210	691 612
Mathukha NR	257 077	40 800	134 432	857	433 166
Magada MR	124 204	-	6 274	3 480	133 958
	1 536 656	**122 400**	**534 700**	**17 276**	**2 211 032**

Vhembe District Municipality
Appendix E(1)
June 2020

Actual versus Budget for the year ended 30 June 2020

	Current year 2019 Act. Bal. Rand	Forecast # 1 2020 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Sale of water	189 072 097	194 674 000	(5 601 903)	(2,9)	Within the limit
Rendering of services	663 887	121 000	542 887	448,7	Under budgeted
Rental of facilities	996	2 000	(1 004)	(50,2)	Non billing
Sale of tender documents	1 804 829	7 665 000	(5 860 171)	(76,5)	There were lots of tenders which were sold during the year end
Licences and permits	1 624	419 000	(417 376)	(99,6)	
Interest received - investment	38 708 122	39 741 000	(1 032 878)	(2,6)	Receipts is within the limit
Government grants and subsidies	546 583 092	569 269 000	(22 685 908)	(1,4)	
Other Income	3 300 000	3 872 000	(572 000)	(14,8)	Under budgeted
	-	-	-	-	
	-	-	-	-	
	-	-	-	-	
	-	-	-	-	
	780 134 647	815 763 000	(35 628 353)	(2,0)	
Expenses					
Employee related cost	(605 453 430)	(593 702 807)	(11 750 623)	2,0	Over expenditure is due to non provision for leave pay
Remuneration of councillors	(14 665 338)	(15 089 419)	424 081	(2,8)	Expenditure is within the budget
Depreciation	(209 516 332)	(100 000 000)	(109 516 332)	109,5	Under budgeted
Impairments	(120 044 257)	-	(120 044 257)	-	There was no provison done during the budget adjsutment
Finance costs	(348 044)	(346 363)	(1 681)	0,5	Expenditure is within the budget)
Debt Impairment	-	-	-	-	
Bulk purchases	(88 827 149)	(41 345 584)	(47 481 565)	114,8	Under budgeted as the municipality was still engaging with the department for the previous debts
Contracted Services	(385 971 355)	(241 559 771)	(144 411 584)	59,8	Over expenditure due to ageing infrustructure
General Expenses	(156 257 448)	(132 256 898)	(24 000 550)	18,1	Over expenditure due to Musina debts
	581 083 353)	124 300 842)	(456 782 511)	40,6	
	-	-	-	-	
	-	-	-	-	
	199 051 294	691 462 158	(492 410 864)	(71,2)	